

Message Text

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ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 STR-08 EB-11 DOTE-00 COME-00

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DEPARTMENT PASS STR

E.O. 11652: N/A

TAGS: ETRD, BEXP, BE

SUBJECT: NEW BELGIAN AUTOMOBILE TAX MAY HURT AMERICAN EXPORT
POTENTIAL

REF: BRUSSELS A-182 (NOTAL), AUGUST 12, 1974

1. SUMMARY -- IN RESPONSE TO EMBASSY REPRESENTATIONS ON
SEPTEMBER 6 TO DE DOBBELEER (DIRECTOR GENERAL FOR
ECONOMIC AFFAIRS IN THE FOREIGN MINISTRY) ON PROPOSED
BELGIAN GOVERNMENT INCREASE OF ROAD TAXES WHICH WOULD HAVE
HAD THE EFFECT OF SUBSTANTIALLY INCREASING THE DISCRIMINATION
AGAINST MOST AMERICAN CARS, DE DOBBELEER SAID HE WAS NOT
OPTIMISTIC ABOUT CHANGING THE BASIS FOR BELGIAN ROAD TAXES
(FISCAL HORSEPOWER - CV). HE RECALLED THAT PROBLEM IS ONE
OF LONG STANDING AND ALTHOUGH HE ACKNOWLEDGED BASIS OF ROAD TAX
ASSESSMENT (CYLINDER CAPACITY) WAS NOT VERY RATIONAL, HE SAID
IT WAS DIFFICULT TO CHANGE SUCH A DEEPLY EMBODIED GOVERNMENT

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POLICY. IF, HOWEVER, U.S. GOVERNMENT CONSIDERED THIS AN
IMPORTANT ISSUE, HE ADVISED EMBASSY SENT A NOTE

VERBALE TO VAN ELSLANDE SETTING FORTH CONCERN. HE SUGGESTED WE DO THIS AS SOON AS POSSIBLE SINCE, WITH THE END OF SUMMER VACATIONS GOVERNMENT CONSIDERATION OF THIS ISSUE HAD ALREADY BEEN STARTED AND PARLIAMENT CONVENES IN OCTOBER.

2. NEXT DAY, NEWSPAPERS CARRIED STORIES THAT THE GOVERNMENT HAD ANNOUNCED THAT THE PROPOSED ROAD TAX INCREASES AGAINST WHICH THE AUTOMOTIVE TRADE ASSOCIATIONS AND THE AUTOMOBILE IMPORTERS HAD PROTESTED SO VIGOROUSLY WERE BEING WITHDRAWN AND THAT A NEW FORMULA FOR AN INCREASE IN ROAD TAX IS BEING SOUGHT. THE NEW INCREASE, THE ANNOUNCEMENT NOTED, WOULD HAVE LESS IMPACT ON LARGE ENGINE (I.E. MOST AMERICAN) CARS.

3. EMBASSY HAS BEEN IN TOUCH WITH FORD AND GM AND IS CONTINUING TO FOLLOW SITUATION CLOSELY. REPRESENTATIVES OF FORD EUROPE ARE SEEING THE EMBASSY LATER THIS WEEK TO DISCUSS IDEAS FORD HAS FOR NEW APPROACH TO BELGIAN ROAD TAX AND GM HAS ALSO INDICATED IT WISHES TO DISCUSS MATTER FURTHER WITH EMBASSY. END SUMMARY

4. BACKGROUND -- AS REPORTED IN A PRELIMINARY WAY BY REFAIR, THE BELGIAN GOVERNMENT ANNOUNCED IN AUGUST, 1974 THAT IT PROPOSED TO INCREASE ROAD TAXES ON ALL AUTOMOBILES IN THE FALL. IF THIS PROPOSAL HAD BEEN ADOPTED, THE ROAD TAX ON ALL CARS IN BELGUIM, BASED ON THE "FISCAL HORSEPOWER" OF THE VEHICLE, WOULD HAVE BEEN RAISED 50 PERCENT FOR SMALL CARS, 100 PERCENT FOR MEDIUM-SIZE CARS, AND 200 PERCENT FOR LARGE CARS. (ALL CARS EXPORTED FROM THE UNITED STATES, EXCEPT THE FOUR-CYLINDER VERSIONS OF THE VEGA ET.AL., FALL IN THE LARGE- CAR CATEGORY.)

ROAD TAXES IN BELGIUM ARE BASED ON FISCAL HORSEPOWER (I.E. CYLINDER SIZE) BUT THEY NOW RISE ARITHMETICALLY. THE PROPOSED INCREASES, HOWEVER, WOULD HAVE INCREASED THE ROAD TAXES GEOMETRICALLY THUS HITTING LARGE CARS (I.E. AMERICAN CARS) TWO TO FOUR TIMES HARDER THAN SMALLER CARS. THUS, WHAT IS ALREADY AN UNFAIR LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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TAX FROM THE AMERICAN CAR EXPORTERS POINT OF VIEW WOULD HAVE BECOME AN EVEN MORE UNFAIR TAX.

5. FORD MOTOR COMPANY OF BELGIUM INFORMED US THAT, UNTIL THE DEVALUATION OF THE DOLLAR IN 1971, IT SOLD ONLY ABOUT 400 AMERICAN-MADE CARS PER YEAR IN BELGIUM, MAINLY AS TAXIS, FUNERAL CARS AND FOR OTHER COMMERCIAL USES. (GM, CHRYSLER, AND AMERICAN PROBABLY AVERAGED ABOUT THE SAME NUMBER PER YEAR.) IN 1974, HOWEVER, FORD HAD EXPECTED TO SELL 2,500 CARS EXPORTED FROM

THE U.S. AND HAD ADVERTISED THE MUSTANG II PARTICULARLY WIDELY. THE PROPOSED INCREASE IN ROAD TAXES, FORD BELIEVES, WOULD HAVE CUT ITS SALES BACK TO THE OLD LEVEL FOR THE REST OF THIS YEAR AND IN THE FUTURE.

6. THE STRUCTURE OF THE NEW TAX INCREASE WOULD HAVE DISCRIMINATED AGAINST AMERICAN EXPORTS BECAUSE THEY DID NOT FALL EQUALLY HEAVILY ON FRENCH (PEUGEOT 504), GERMAN (MERCEDES 230) AND SWEDISH (VOLVO 164) CARS WHICH COMPETE DIRECTLY IN BELGIUM WITH AMERICAN CARS AS TO PRICE AND WEIGHT. BECAUSE THE CYLINDER CAPACITY OF THESE EUROPEAN CARS IS SMALLER, THEY ARE CLASSIFIED AS MEDIUM-SIZE CARS AND THEIR ROAD TAX WAS SCHEDULED TO GO UP ONLY HALF AS MUCH. FOR EXAMPLE, THE CURRENT ROAD TAX ON A PEUGEOT 504 IS BF 2112 PER YEAR WHILE THE PROPOSED NEW TAX WOULD HAVE BEEN BF 4224. ON A CHEVELLE MALIBU SIX-CYLINDER, THE CURRENT TAX IS BF 6100 AND THE PROPOSED NEW TAX WOULD HAVE BEEN BF18300.

7. EMBASSY POUCHING COPIES OF LETTERS RECEIVED BY US FROM FORD AND GM OF BELGIUM, THE CONTENTS OF WHICH DEPARTMENT MAY USE (BUT WITHOUT ATTRIBUTION TO THE BELGIAN BRANCH OF FORD/GM.) IT IS NOTEWORTHY THAT IN THEIR LETTERS TO US, BOTH GM AND FORD RESTRICTED THEIR COMPLAINTS TO THE UNFAIRNESS OF THE HIGHER INCREASES APPLIED TO CARS EXPORTED FROM THE U.S. OVER THOSE MADE IN EUROPE. (THESE SAME TWO COMPANIES, OF COURSE, ALSO MANUFACTURE CARS IN EUROPE, MOST OF WHICH FALL IN THE MEDIUM-SIZE CATEGORY FOR THE PURPOSES OF THIS TAX.) FYI-CHRYSLER OF BELGIUM, WITH WHICH FORD AND GM HAVE SPOKEN AND WHICH THEY ASKED TO JOIN THEM IN LIMITED OFFICIAL USE
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WRITING TO THE EMBASSY, DECLINED TO DO THIS. INSTEAD, CHRYSLER CHOSE TO PROTEST THE WHOLE SET OF NEW TAXES THROUGH BELGIAN AUTOMOTIVE TRADE ASSOCIATIONS. IT DID NOT LIMIT ITS PROTEST TO LARGE OF U.S. MADE CARS. IN CONFIDENCE, CHRYSLER SENT US A COPY OF THE TRADE ASSOCIATION'S LETTER TO THE MINISTRIES AND ALSO INFORMED US THAT CHRYSLER HAS MADE REPRESENTATIONS TO THE MINISTRY OF ECONOMIC AFFAIRS. A COPY OF THE ASSOCIATION'S LETTER WILL ALSO BE POUCHED WITH THE LETTERS LISTED IN PARAGRAPH 7 ABOVE BUT CHRYSLER HAS ASKED THAT IT NOT BE REVEALED TO NON-AMERICANS THAT WE HAVE A COPY OR THAT WE KNOW ABOUT THEIR APPROACHES TO THE BELGIAN GOVERNMENT. END FYI.

8. LATEST DEVELOPMENTS -- ON SEPTEMBER 7, THE MINISTER OF FINANCE ANNOUNCED THAT THE PROPOSAL FOR INCREASED ROAD TAXES HAD BEEN WITHDRAWN IN RESPONSE TO PUBLIC CRITICISM THAT IT WAS UNFAIRLY BURDENSOME ON LARGER

CARS. THE MINISTER NOTED THAT THE ROAD TAX INCREASE HAD BEEN EXPECTED TO BRING IN TWO BILLION FRANCS AS REVENUE AND THAT THIS GOAL WAS RETAINED.

9. OUR SOURCES IN THE MINISTRY OF FINANCE INFORM US THAT THE GOVERNMENT WILL ANNOUNCE A NEW PROPOSAL FOR INCREASED ROAD TAXES BEFORE THE END OF SEPTEMBER AND THAT THE PROGRESSIVE FEATURE (A GREATER INCREASE ON LARGER ENGINES THAN ON SMALLER ENGINES) WILL BE RETAINED. THE DIFFERENCE, HOWEVER, BETWEEN THE INCREASE FOR MEDIUM SIZE ENGINES AND THE INCREASE FOR LARGE ENGINES WILL BE REDUCED IN COMPARISON WITH THE PROPOSAL WHICH HAS BEEN WITHDRAWN INSTEAD OF DIVIDING THE TAX INCREASE INTO THREE GROUPS (SMALL-MEDIUM-LARGE), FOUR OR FIVE CATEGORIES OF INCREASE MAY BE INTRODUCED. THUS, THE NEW PROPOSAL MAY STILL AFFECT EXPORTS TO BELGIUM OF U.S. CARS ADVERSELY. THE EMBASSY IS FOLLOWING THE SITUATION CLOSELY. FIRESTONE

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